

## Engagement Drives Results at New Century

The specialty mortgage lender shows how engaged employees dramatically, and measurably, outperform their disengaged counterparts

*by Teresa Tritch*

In the following scenario, you are the manager:

Take an employee, any employee. Make sure he or she knows your expectations about accomplishing specific tasks and furthering your company's overall mission. Provide ongoing support and feedback, from up-to-date technology and how-to advice to praise and constructive criticism. Create an environment that is dynamic, even driven, yet collegial enough that the employee feels cared for as an individual - and maybe even has a best friend at work.

If you do all that, you would foster what The Gallup Organization calls an "engaged" employee -- a worker who is fully involved in and enthusiastic about his or her work.

It seems obvious that engaged employees would be more productive than their disengaged counterparts. But as a manager, you have to ask: How *much* more productive? Unless you can compare the bottom-line contributions of engaged and disengaged workers, you cannot know whether building engagement is worth the managerial effort.

At New Century Financial Corporation, one of the nation's leading specialty mortgage lenders, executives are homing in on the answer to that question. In October 2001, New Century instituted Q<sup>12</sup>, a process pioneered by Gallup to measure employee

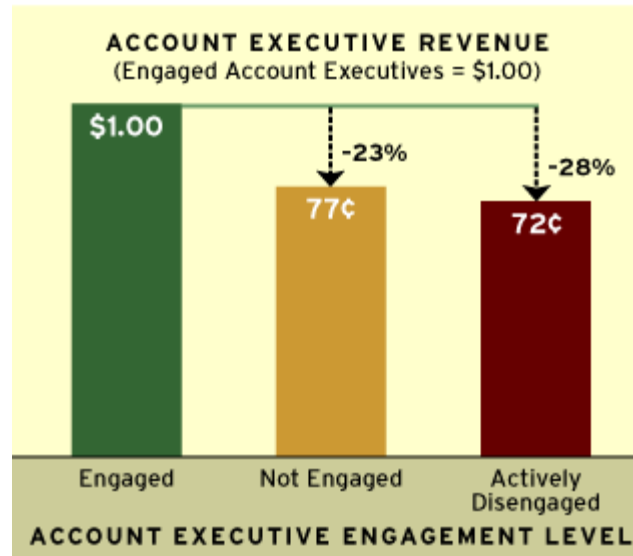
engagement and, more importantly, to generate results-oriented dialogue between employees and managers about specific areas of high and low engagement. Q<sup>12</sup>, so named because the process starts with a 12-question survey, was launched when New Century had 1,394 employees; 86% of the workforce voluntarily completed the Q<sup>12</sup> questionnaire. (See the *First, Break All the Rules* book center in See Also for a list of the 12 questions.)

In the six months following the first administration of the Q<sup>12</sup>, managers and employees devised and executed plans to improve engagement while the company tracked the revenue generated by account executives and loan officers across various divisions. Among the results: Account executives in the wholesale division who were "actively disengaged" -- workers who are physically present on the job but psychologically absent -- produced 28% less revenue than their colleagues who were engaged, while those defined as "not engaged," that is, productive but not psychologically committed to their jobs, generated 23% less revenue than their engaged counterparts. Engaged employees were also superior performers in New Century's other divisions.

Senior executives would do well to note that the path New Century followed to boost engagement -- and the improvements in bottom-line outcomes that resulted -- are available to virtually any company. In fact, at New Century, these results were just the beginning of change for the better.

## AS INDIVIDUAL ENGAGEMENT RISES, SO DOES REVENUE

At New Century, Account Executives (AEs) who were actively disengaged produced 28% less revenue than engaged AEs, while those who were not engaged undersold their engaged counterparts by 23%.



Source: The Gallup Organization

### Engagement drives results

New Century's second Q<sup>12</sup> administration occurred in May 2002, with 78% of its 1,766 employees participating, and a third administration took place in April 2003, involving 89% of its 2,476 employees. Each time, after the Q<sup>12</sup> results were in, managers and employees met to review the findings and come up with new strategies to improve engagement. Over the course of three Q<sup>12</sup> administrations, New Century and Gallup amassed enough data to show that engagement doesn't merely correlate to better bottom-line results -- it actually drives them.

For example, at New Century retail branches that had significantly improved their overall Q<sup>12</sup> scores twice in a row, the growth rate in per-person revenue was six times faster than at branches with Q<sup>12</sup> scores that remained the same or declined twice in a row. Regardless of how engaged or disengaged the workers had been at the outset, the factor that helped boost revenue growth was the improvement in employee engagement.

"Q<sup>12</sup> has been of enormous organizational benefit to us," says Brad Morrice, New Century Mortgage's chief executive officer.

"Engagement is now part of our culture; it's how we talk to one another and something our new people are brought into right away."

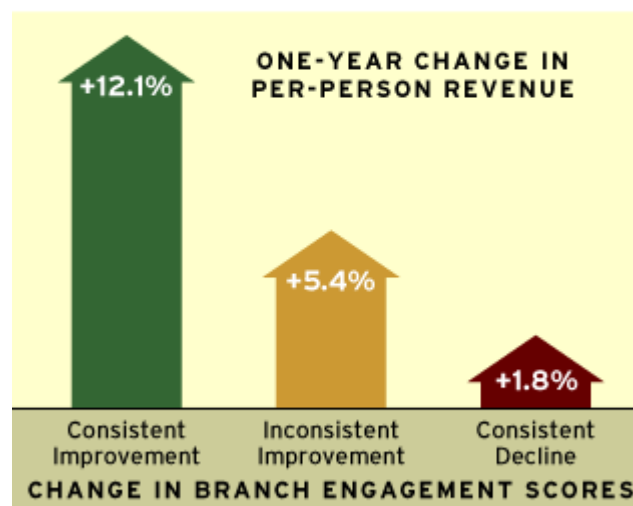
Clearly, Morrice is focused on the unique environment at New Century. But engagement lies at the heart of that environment, and engagement is not dependent on any specific company or industry. Rather, as New Century and other companies know, engagement springs from the fulfillment of universal human needs -- support, recognition, belonging, and growth.

### "An organized message to management"

Over the course of its brief seven-year existence, New Century has weathered the storms of a lifetime. In 1998, outside events, including the Russian bond default and the meltdown of hedge fund Long Term Capital Management, prompted a liquidity crisis that drove many of New Century's competitors out of business. Then, the market niche in which New Century operates -- securing loans for less-than-creditworthy borrowers -- was rocked with scandals about predatory lending. And, alas, the stock market tanked. But New Century secured bank financing that allowed

## AS BRANCH ENGAGEMENT RISES, SO DOES REVENUE

Branches that improved their engagement scores twice in a row performed markedly better than branches with scores that declined twice in a row. In fact, their per-person revenue grew more than six times faster.



Note: One-year change in per-person revenue measured Nov. 2001-Apr. 2002 and Nov. 2002-Apr. 2003. Source: The Gallup Organization

it to survive the liquidity crunch, endured the industry scandals with its integrity unquestioned, and increased its stock price -- from a five-year low of \$2.75 per share in October 1998 to \$25 recently.

So why has New Century called in the management consultants? "When you're doing well, you have the opportunity to do exceptionally well," Morrice says. "At New Century, we want to capture what we're doing well and define it, so we can do more of it."

In that spirit, Morrice chose to work with Gallup in 2001. At the time, Morrice wanted to assess whether the company's workforce was in a state of what he calls "organizational readiness" to attain the company's strategic objectives. He wanted a way to benchmark the employees' ability and willingness to execute company strategy and, going forward, track improvement or backsliding.

Morrice was drawn to Q<sup>12</sup> because its methodology is grounded in research and statistics. It took Gallup seven years and thousands of worldwide interviews to distill the results-oriented philosophy of engagement into a quantifiable questionnaire and disciplined process that would generate the feedback necessary for improvement. Says Morrice, "The science behind Q<sup>12</sup> convinced me that I could get the employee feedback I needed with 12 questions instead of the 100-plus questions used in other, more cumbersome processes."

Morrice also liked the positive feel of Q<sup>12</sup>. Other methods, he says, "tended to label people in a controversial way" -- an approach he felt could unfairly pigeonhole employees. In contrast, Morrice felt that Q<sup>12</sup> resulted in "an organized message to management." "It yields useful information for managers," he says, because questions on which workgroups register as engaged are seen as areas of strength to build upon. And questions on which workgroups rank as disengaged point to opportunities for improvement.

### **Unleashing waves of activity**

When New Century's first Q<sup>12</sup> results were tallied, 35% of employees indicated they were engaged. These results placed New Century's employee engagement in the top half of Gallup's database of 106,000 work units and 1.4 million employees.

Moreover, half of New Century's workgroups had scores high enough to place them in the 75<sup>th</sup> percentile or above in Gallup's database -- and the 75<sup>th</sup> percentile is where world-class engagement levels begin.

For Morrice, that was good, but not good enough. "New Century is an organization that so far has never been satisfied," he says. Morrice attended every one of the four-hour training sessions that Gallup conducted for New Century managers, listening as they learned how to interpret their Q<sup>12</sup> results and implement action-planning sessions with their employees. Morrice continued to attend the sessions through all three Q<sup>12</sup> administrations, clocking 45 sessions in a year and a half. "His message to the managers has always been, 'We believe in this; we want you to believe in this. What support do you need from me to make Q<sup>12</sup> work for you?'" says Wyn Sipple, Gallup's client service leader for the New Century account.

Taken together, the Q<sup>12</sup>, the manager training sessions, and Morrice's executive-level support unleashed waves of activity at New Century. Some workgroups concentrated on strengthening their scores on the first two Q<sup>12</sup> items: "I know what is expected of me at work" and "I have the materials and equipment I need to do my work right." If you think of the Q<sup>12</sup> as a pyramid, these two questions form the base. As such, a manager whose employees score well on these questions has built a strong foundation for engagement.

In some cases, improving a score on "materials and equipment" was a matter of directly querying employees about their needs. For instance, many managers learned that employees considered access to information a necessary "tool." Once that was understood, a manager could make changes -- in policy or behavior -- to give the employees the information they said they needed to excel. "What struck me most," says Morrice, "was how our people responded to Q<sup>12</sup>'s basic message: Focus on and communicate at the local workgroup level; put most of your energy into leveraging your strong points."

By the third Q<sup>12</sup> administration in April 2003, the percentage of engaged employees had risen to 46% of the workforce. The hefty increase in engagement boosted 63% of New Century's workgroups to the top performance quartile -- the 75<sup>th</sup> percentile and above -- of Gallup's database.

It was clear that increased engagement was making New Century a stronger company and a better place to work. By the third Q<sup>12</sup> administration, 31% more of New Century employees were engaged than had been just 18 months earlier.

Perhaps even more important, Q<sup>12</sup> pointed out where New Century needed to improve. For example, in the 10 months following the first Q<sup>12</sup>, Gallup analysts found that actively disengaged employees left the company at rates that were 46% higher than those of engaged employees, at a cost to New Century of \$810,000 -- an unacceptably high tab for a growing company. A closer examination of the Q<sup>12</sup> results further revealed that two specific issues were the top predictors of voluntary termination: Those who left felt that their jobs provided few opportunities to grow and that their opinions didn't seem to count at work.

In a similar vein, Q<sup>12</sup> revealed that engagement tends to decline among New Century employees with one to two years' tenure. When Morrice saw that, he remembers thinking, "We have a good foundation, but we need a better building on that foundation." To that end, he encourages managers to make two particular Q<sup>12</sup> items the focus of their action planning. The first item involves delivering recognition or praise on a weekly basis; the second is to make sure employees' opinions are heard and, wherever appropriate, acted upon. "These two issues are about ongoing acceptance and how an employee feels he or she is treated every day," Morrice explains, "so they're especially important after the honeymoon of being hired is over."

### **Developing great managers**

To further boost engagement, New Century has started to explore ways to make Q<sup>12</sup> analysis and action planning even more effective in the company's day-to-day

operations. For example, to ensure that the least engaged workgroups learn from the most engaged workgroups, the company asked Gallup to prepare a "best practices" analysis. Gallup consultants interviewed 35 New Century managers whose workgroups scored in the top 10% on engagement, asking about their attitudes, behaviors, and thoughts on each Q<sup>12</sup> question. The consultants also interviewed up to three workers from each of the top workgroups about the effectiveness of various efforts to boost engagement. The resulting 75-page document is an oral history of engagement at New Century and has become required reading in the company. The document's power is that it shows New Century managers what is working within their own organization, says Sipple, "and not what Gallup thinks you should do."

New Century has also begun sending its top 100 managers to Gallup's Great Manager Program. Central to the two-day seminar is a strengths-based approach to management, which stresses the importance of identifying each individual's talents so managers can match workers to roles based on those talents. The Great Manager Program training is specifically focused on New Century's best managers, Morrice says, because the biggest improvements in engagement and productivity come from moving from great to exceptional, not from average to good. He's right about that. In 2003, managers who had been through the Great Manager Program had Q<sup>12</sup> results that exceeded those for the company overall by 2.6 times.

The strengths-based approach has begun to take hold throughout New Century. At first, a few managers and employees took Gallup's StrengthsFinder, an online assessment tool that measures the presence of talent within 34 themes. They received individualized reports of their Signature Themes -- their top five themes of talent. (Achiever, Developer, Empathy, and Strategic are examples of talent themes; visit the *Now, Discover Your Strengths* book center on this site for more information.) By understanding their talents, employees naturally gravitate to tasks that enable them to use those talents daily, rather than struggling with tasks that require them to constantly battle their shortcomings.

StrengthsFinder has been incredibly popular with employees, Morrice says, and many clamored to take it. Realizing that the grass-roots interest in StrengthsFinder was the best possible starting point for becoming a strengths-based organization, New Century began to include the assessment and an accompanying intensive online training course as part of its formal management course. So far, 300 managers have been through StrengthsFinder training; in the near future, New Century plans to extend the training to all of its employees.

Morrice sees the development as a natural evolution. "Q<sup>12</sup> has helped us to boost productivity," he says. "StrengthsFinder will help us to channel that productivity."

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To learn more about the summit or to register, visit the [Summit on Hiring and Developing Great Managers](#) page at [www.gallup.com](http://www.gallup.com) or contact [Mary Penner-Lovci](#) at 212-899-4890 or [Amy White](#) at 609-924-9600.

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